S
352.44
L21AR
1996

Montana Lottery

Winning With Montana

STATE DOCUMENTS COLLECTION
APR 03 1998
MONTANA STATE LIBRARY
1515 E. 6th AVE.
HELENA, MONTANA 59620

PLEASE RETURN

1996 Official Game Program/Annual Report

MONTANA STATE LIBRARY
3 0864 0010 3992 7

Director's Message

Fiscal Year 1996 saw a continued decline in sales and a resulting decline in revenues to the General Fund. This was in spite of the Montana Lottery's efforts to maximize revenues for the State of Montana.

Despite the decline in sales and revenue transfers, the Montana Lottery has achieved success in how it has touched the lives of the people of Montana. Our winners, who are featured in this year's annual report, have benefited from the Montana Lottery. Our retail network, which continues to be a positive influence on our sales, serves the people of the State of Montana, and our players benefit from the contact they have with our "front line."

In addition, our retail network benefits through our commission and bonus program and our advertising efforts and promotional support. Our program continues to have positive support among players and non–players alike. Our research findings this fiscal year show continued support for operating a Lottery in the state of Montana, with an approval of 78 percent, up from two years ago our approval rating was 76 percent.

As we approach our tenth anniversary, my staff and I look forward to the positive changes that are occurring inside and outside our organization. The implementation of an Instant Ticket Validation and Accounting System (ITVAS) in Fiscal Year 1997, along with related changes to our Scratch products, will serve as an impetus to renewed growth.

In addition, we will continue to enhance our on–line products, making changes as the marketplace demands and as it makes sense for the State of Montana. We will continue to operate with integrity, keeping in mind our responsibility to ever increase profits to help support the programs maintained by the General Fund of the State of Montana.

Sincerely,

Gerald J. LaChere

Gerald J. LaChere
Director

GENERAL MANAGER

Governor's Message

Created ten years ago by the citizens of the State of Montana, the Montana Lottery continues to provide benefits to our state.

Since the Lottery's inception in 1987, more than $59 million in revenue has been generated to support state programs. This year alone, the Lottery contributed more than $7.8 million to the General Fund of the State of Montana. The Lottery benefits just about everyone in Montana—from lucky winners to small business owners to those who benefit from the programs the State Lottery helps fund.

With regards,

Marc Racicot
Governor

Lottery Commission:
Top L to R – David Kasten, Brockway • Robert Crippen, Butte • Cliff Brophy, Columbus
Bottom: L to R – Becky Erickson, Chair, Glasgow • Larry O'Toole, Plentywood

The Montana Lottery Commission serves the Governor and the people of the State of Montana and sets Lottery policy with an emphasis on a financially strong Lottery with continued integrity. We serve as citizen representatives and provide a variety of perspectives to the Lottery Director and staff in our meetings and telephone conversations.

Our oversight responsibilties and interest in the operations of the Lottery give us complete confidence in Director LaChere and his dedicated and professional staff. From the Marketing Representatives whom you meet on a daily basis in your communities, to the staff in Helena who serve the players, winners, and retailers in various sales, promotional, accounting, reporting, security and administrative functions, each person works hard every day to ensure integrity and quality in their jobs.

We turn our sights to the future and will continue to represent the public by ensuring a variety of lottery products offered with security and integrity.

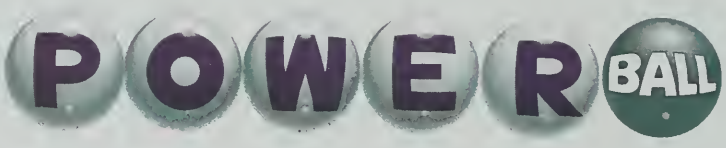
We look forward to our tenth year of operations.

Sincerely,

Becky Erickson

Becky Erickson, Chair
Glasgow

- Introduced in June 1987
- 20 percent of total sales in fiscal year 1996
- Top prizes ranged from $200 to $10,000
- Over 6.3 million tickets sold in fiscal year 1996
- Over 4,400 top prizes paid to players
- Nearly $2.8 million in low-tier (under $50) prizes paid to players
- There were over 840,000 free ticket SCRATCH plays
- An estimated $3.5 million paid to players in the form of prizes
- Over $469,500 paid to more than 600 retailers statewide in the form of commissions and bonuses



- Introduced in April 1992
- Current operated in conjunction with 20 other lottery jurisdictions
- Five numbers are drawn from one field of 45 numbers, plus another (POWERBALL) number from a second field of 45 numbers
- 45 percent of the Montana Lottery's total sales in fiscal year 96
- In fiscal year 1996, ten tickets matched the first five numbers to win the second tier prize of $100,000
- Another 42 tickets matched four of the first five numbers and the POWERBALL to win the second tier prize of $5,000
- POWERBALL has nine winning combinations
- Other prizes in the game range from $1 to $100
- On average, there are over 3,800 winning tickets per draw
- Montana's first POWERBALL jackpot winners won $31.4 million, payable in a twenty annual installments
- Other players won over $2.5 million in the 105 drawings in fiscal year 1996
- Montana Lottery retailers received over $708,400 in commissions in fiscal year 1996

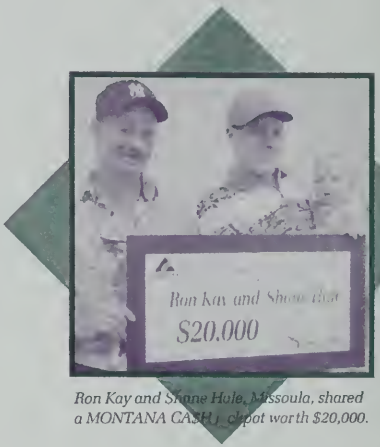
- Introduced in May 1991
- 19 percent of total sales
- Five numbers are drawn from a field of 37
- During fiscal year 1996, 21 jackpot winners won or shared jackpots ranging from $20,000 to $253,600
- On average there were 1,379 winning sets of numbers per draw
- In fiscal year 1996, there were 144,857 winning sets of numbers
- MONTANA CA$H winners shared over $2.9 million
- $307,925 was paid to retailers in the form of commissions
- 4,544 tickets matched four of five numbers this year to win $200 each
- 140,282 tickets matched three of five numbers to win $5 each

- Introduced in February 1994 in Montana, South Dakota and Idaho
- Six numbers are chosen from a field of 33
- 16 percent of sales in Montana
- On each drawing, approximately eight tickets won $250; 251 tickets won $10; and over 2,800 tickets won $1
- In August 1995, Rena Lundy of Great Falls claimed a jackpot worth $432,792
- In March 1996, Dorothy Jungers and Myrtle Wiley of Helena shared a jackpot worth $1,437,007
- In fiscal year 1996, 321,667 tickets won a total of $2,637,897
- $279,658 was paid to retailers in commissions

WINNING FANS

- Over $3 million in prizes was paid to players of SCRATCH games

Evelyn Solheim, Great Falls, won $30,300 on a MONTANA CA$H ticket.



Ron Kay and Shanne Hale, Missoula, shared a MONTANA CA$H jackpot worth $20,000.

- Prize payouts in Fiscal Year 1996 totaled over $15.9 million

Wendy Hammond, Billings won $700 playing BINGO.

Charles Nor[illegible], Helena won $2,000 playing DEAL [illegible].

- There were nearly 145,000 winning MONTANA CA$H tickets in Fiscal Year 1996

Father and son team, Russ and Jack Sherrod of Sun Prairie, won $31.4 million playing POWERBALL.

- Montana celebrated its first POWERBALL jackpot winner in Fiscal Year 1996

Dole McLoughlin of Great Falls won $69,800 playing MONTANA CA$H.

- There were 321,667 winning TRI–WEST LOTTO tickets in Fiscal Year 1996

DuWayne Fingerson of Bozeman won $100,000 in POWERBALL.

- Nearly 402,000 ticket–holders won POWERBALL money in Fiscal Year 1996

Myrtle Wiley and Dorothy Jungers, Helena, shared a TRI–WEST jackpot of $1.4 million and are pictured with their entourage.

WINNING SCORE

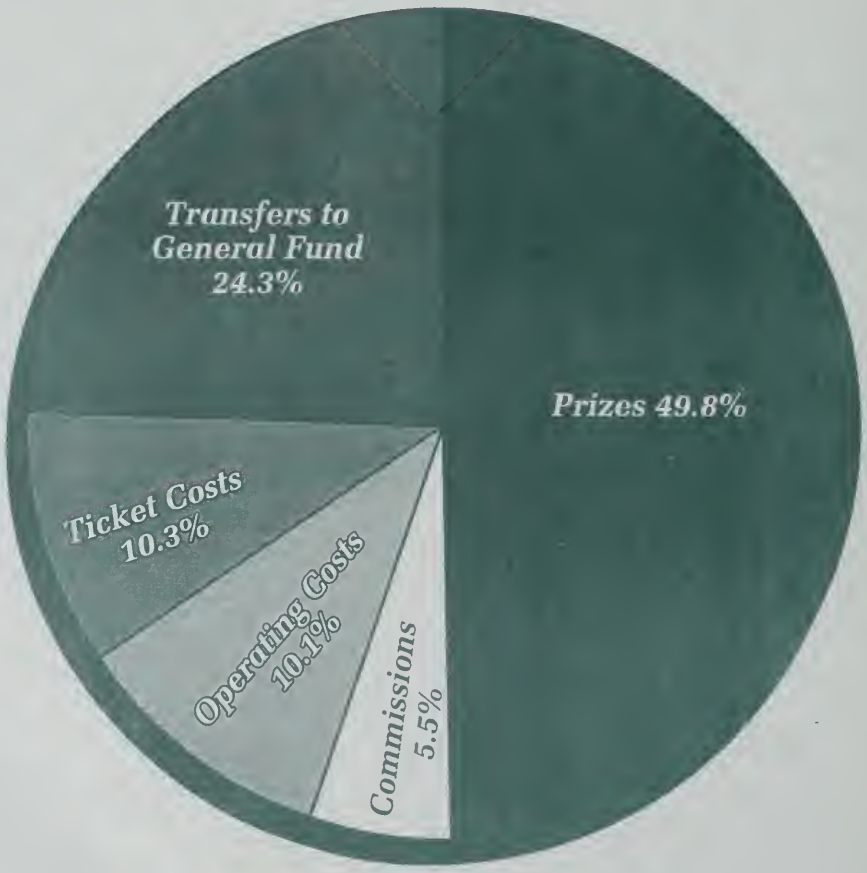
Prizes: Under Lottery laws, a minimum of 45 percent of all sales revenue is returned to players in the form of prizes.

Commissions: Montana Lottery retailers earn a five percent base commission on each ticket sold. Scratch ticket sales can earn retailers can earn retailers up to 10 percent for sales over established sales bases.

Ticket Costs: In Fiscal Year 1996, each Scratch ticket cost approximately 7 cents and each on-line ticket cost approximately 11.5 cents.

Operating Costs: The Montana Lottery is responsible for the marketing and sales of all Lottery products; public and media relations; the security of all elements of the Lottery; warehousing and inventory control; and Lottery operations which include accounting, fiscal management and data processing.

Transfers to General Fund: On a quarterly basis, the Montana Lottery transfers net revenue to the State of Montana General Fund. The General Fund provides money to state programs which do not have a dedicated revenue source.



INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Montana State Lottery
Helena, Montana

We have audited the accompanying financial statements of Montana State Lottery (Lottery), an enterprise fund of the State of Montana, as of and for the years ended June 30, 1996 and 1995. These financial statements are the responsibility of the Lottery's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Montana State Lottery and are not intended to present the financial position of the State of Montana and the results of its operations and cash flows of its proprietary fund types and nonexpendable trust funds in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Montana State Lottery, an enterprise fund of the State of Montana, as of June 30, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated August 29, 1996, on our consideration of the State of Montana's internal control structure as it relates to the Montana State Lottery and a report dated August 29, 1996, on its compliance with laws and regulations.

Olness & Associates, PC

August 29, 1996

BALANCE SHEETS
June 30, 1996 and 1995

	1996	1995
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 2)	$ 2,482,222	$ 2,647,262
Accounts receivable, less allowance for doubtful receivables of $ -0- in 1996 and $8,453 in 1995	763,372	525,276
Inventory	166,963	393,848
Other current assets (note 3)	23,468	64,781
TOTAL CURRENT ASSETS	3,436,025	3,631,167
FIXED ASSETS		
Furniture, fixtures and equipment	692,935	1,042,093
Accumulated depreciation and amortization	(358,169)	(662,490)
	334,766	379,603
OTHER ASSETS		
Long-term receivable (note 4)	1,721,065	1,461,589
	$ 5,491,856	$ 5,472,359
LIABILITIES AND FUND EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 304,801	$ 225,639
Estimated prize liability (note 5)	1,208,856	694,416
Transfer obligations (note 6)	1,645,131	2,376,243
Other current liabilities (note 7)	273,729	324,665
TOTAL CURRENT LIABILITIES	3,432,517	3,620,963
LONG-TERM LIABILITIES (note 8)	1,820,296	1,564,893
	5,252,813	5,185,856
FUND EQUITY		
Contributed capital (note 10)	239,043	239,043
Retained earnings	–	47,460
	239,043	286,503
COMMITMENTS AND CONTINGENCIES (notes 9 and 13)	–	–
	$ 5,491,856	$ 5,472,359

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS
Years Ended June 30, 1996 and 1995

	1996	1995
OPERATING REVENUES		
Instant ticket games	$ 6,331,627	$ 7,281,701
On–line games	25,429,787	25,476,717
License fees	2,000	2,700
TOTAL OPERATING REVENUES	31,763,414	32,761,118
COST OF TICKET REVENUES		
Instant ticket prize expense	3,525,849	3,955,212
On–line ticket prize expense	12,388,451	12,196,640
Retailer commission	1,765,565	1,803,629
On–line vendor fees	2,910,743	3,214,013
Cost of tickets sold	383,879	334,186
TOTAL COST OF TICKET REVENUES	20,974,487	21,503,680
NET OPERATING REVENUES	10,788,927	11,257,438
OPERATING EXPENSES		
Advertising	873,088	548,872
Communications	202,699	152,180
Contractual services	385,360	420,587
Depreciation	89,578	60,814
Management fees	91,300	86,151
Multi–state operating fees	82,108	93,288
Personal services	1,170,008	1,105,216
Repairs and maintenance	60,086	73,887
Supplies and materials	116,905	152,583
Utilities and rent	91,461	92,845
Travel	29,056	35,762
Other	49,986	44,848
TOTAL OPERATING EXPENSES	3,241,635	2,867,033
OPERATING INCOME	7,547,292	8,390,405
NONOPERATING REVENUES (EXPENSES)		
Interest income	243,019	201,396
Gain (loss) on disposal of fixed assets	(34,709)	2,212
TOTAL NONOPERATING REVENUES (EXPENSES)	208,310	203,608
INCOME BEFORE OPERATING TRANSFERS	7,755,602	8,594,013
OPERATING TRANSFERS OUT		
Montana State General Fund	(7,803,062)	–
Montana Office of Public Instruction	–	(7,811,958)
Montana Board of Crime Control	–	(782,055)
TOTAL OPERATING TRANSFERS	(7,803,062)	(8,594,013)
NET INCOME (LOSS)	(47,460)	–
RETAINED EARNINGS, BEGINNING OF YEAR	47,460	–
Prior period adjustment	–	47,460
RETAINED EARNINGS, END OF YEAR	$ –	$ 47,460

See notes to financial statements.

STATEMENTS OF CASH FLOWS
Years Ended June 30, 1996 and 1995

	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from sales	$ 31,255,410	$ 32,952,758
Cash paid to suppliers for goods and services	(6,675,019)	(7,174,608)
Cash paid to employees	(1,157,084)	(1,079,978)
Cash paid for prizes	(15,227,395)	(16,368,009)
NET CASH PROVIDED BY OPERATING ACTIVITIES	8,195,912	8,330,163
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating transfers out:		
Montana State General Fund	(8,534,174)	–
Montana Office of Public Instruction	–	(8,066,780)
Montana Board of Crime Control	–	(807,565)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(8,534,174)	(8,874,345)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from the sale of fixed assets	11,705	10,156
Purchase of fixed assets	(91,155)	(44,874)
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(79,450)	(34,718)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest received on investments	252,672	202,504
NET CASH PROVIDED BY INVESTING ACTIVITIES	252,672	202,504
NET DECREASE IN CASH AND CASH EQUIVALENTS	(165,040)	(376,396)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,647,262	3,023,658
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,482,222	$ 2,647,262

STATEMENTS OF CASH FLOWS (continued)
Years Ended June 30, 1996 and 1995

Reconciliation of Operating Income to Net Cash Provided by Operating Activities

	1996	1995
Operating income	$ 7,547,292	$ 8,390,405
Adjustment to reconcile operating income to net cash provided by operating activities		
Depreciation	89,578	60,814
Changes in assets and liabilities		
(Increase)/decrease in accounts receivable	(238,096)	346,988
(Increase)/decrease in inventory	226,885	(175,601)
Decrease in other current assets	31,660	81,515
Increase in long–term receivable	(259,476)	(330,391)
Increase in accounts payable	79,162	18,718
Increase/(decrease) in estimated prize liability	514,440	(242,242)
Decrease in other current liabilities	(50,936)	(131,614)
Increase in long–term liabilities	255,403	311,571
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 8,195,912	$ 8,330,163

NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES

Contributions of fixed assets	$ –	$ 237,683

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization
The Montana State Lottery (hereafter referred to as the Lottery) was created in November 1986 by a referendum vote of the people of Montana. Section 23-7-101, Montana Code Annotated (MCA) establishes the provision of the code under which the Lottery operates. The Lottery is operated by a five–member commission consisting of Montana residents appointed by the Governor. The Commission, by law, has the power to operate a state lottery, determine the types and forms of lottery games, set ticket prices, determine the number and size of prizes, conduct lottery drawings, enter into agreements to offer lottery games with other states, and prepare financial reports. The Lottery is attached to the Montana Department of Commerce for administrative purposes.

Disposition of revenue is a minimum of 45 percent for prizes and a maximum of 10 percent for commissions to sales agents. The remaining revenue, less operating expenses, is transferred to the Montana State General Fund.

Reporting Entity
The Lottery is included in the State of Montana's financial statements as an enterprise fund. In accordance with governmental accounting and financial reporting standards, there are no component units to be included within the Lottery's financial statements as a reporting agency.

Basis of Accounting
The Lottery utilizes the accrual basis of accounting and is classified as an enterprise fund of the governmental proprietary fund type. Enterprise funds account for operations similar to private business enterprises where the intent of the Legislature is that costs are to be financed or recovered primarily through user charges, or where the Legislature has decided that periodic determination of revenue earned, expenses incurred or net income is appropriate.

Revenue Recognition
Sales of instant lottery tickets are made to licensed retailers who market the tickets to the public on a commission basis. Revenue is recognized when the tickets are delivered to the retailers. Tickets not sold by retailers may be returned for credit. Sales are reduced for estimated ticket returns.

Sales of on–line lottery tickets are made to licensed retailers who market the tickets through the use of computerized terminals on a commission basis. Revenue is recognized on drawing dates. Tickets sold in advance of future drawing dates are recorded as deferred revenue until the ticket becomes valid for a drawing.

Cash and Cash Equivalents
Cash and cash equivalents consist of interest–bearing deposits with the Montana Board of Investments short–term investment pool, cash on deposit with a bank and cash on deposit with the Montana State Treasurer that is part of the State's pooled cash and is not separately identifiable as to specific types of securities. These funds are highly liquid and may be drawn on daily.

Inventory
Inventories consist of tickets and supplies. Ticket inventory includes instant lottery tickets that are carried at cost using the specific identification method. Tickets are charged to cost of sales when sold. Unsold tickets are charged to cost of sales upon the end or cancellation of the related game. Supply inventory is carried at cost and expensed as used.

Prizes
Prepaid prizes represent prizes purchased and on–hand in advance of game awards. Prize expense is recognized based on a predetermined prize structure for each instant ticket and on–line game. Free tickets are recorded as a reduction in revenue and not as prize expense.

Intangible Assets
Intangible assets represent the per ticket cost paid to Automated Wagering Inc. for advance on–line ticket sales. These ticket sales, also referred to as deferred revenue, represent tickets sold prior to June 30, 1996 and 1995 for drawings held subsequent to year–end.

Fixed Assets
Fixed assets are recorded at cost. Donated fixed assets are recorded at their estimated fair market value at the date of donation. Ordinary maintenance and repairs are charged to operations as incurred; major renewals and betterments are capitalized. Upon disposition or retirement of fixed assets, the cost and related accumulated depreciation or amortization is removed from the accounts. Gain or loss on disposal is reflected in nonoperating revenues and expenses. Depreciation and amortization are calculated on a straight–line basis over estimated useful lives of two to ten years.

Contributed Capital
Contributed capital represents equity acquired through contributions from vendors and the State of Montana.

Compensated Absences
State employees earn vacation leave ranging from fifteen to twenty–four days per year based on years of service. Vacation leave may be accumulated to a total not to exceed twice the maximum number of days earned annually. Sick leave accumulates at a rate of twelve days per year with no maximum accumulation. Upon retirement or termination, an employee is paid for 100 percent of unused vacation leave and 25 percent of unused sick leave.

NOTE 2—CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	June 30, 1996	June 30, 1995
Short–term investment pool	$ 2,099,672	$ 2,104,119
Cash on deposit with State Treasurer	372,400	533,403
Cash in revolving deposit account	10,000	9,590
Petty cash	150	150
	$ 2,482,222	$ 2,647,262

Reference to the audit of the State of Montana would identify the level of risk associated with cash and cash equivalents in the short–term investment pool and amounts retained with the State Treasurer. The bank balance of the revolving deposit account was $10,889 and $10,767 at June 30, 1996 and 1995, respectively, and was covered by federal depository insurance. The carrying amount reported in the balance sheet for cash and cash equivalents approximates the fair market value.

NOTE 3—OTHER CURRENT ASSETS

Other current assets consist of the following:

	June 30, 1996	1995
Prepaid prizes and expenses	$ 9,745	$ 32,295
Intangible assets	9,423	16,602
Interest receivable on investment pool	–	9,653
Employee advances	4,300	4,300
Other	–	1,931
	$ 23,468	$ 64,781

NOTE 4—MULTI-STATE LOTTERY ASSOCIATION

Joint Venture Association

In November 1989, the Montana State Lottery joined the Multi-State Lottery Association (MUSL). MUSL was created in September 1987 to operate a multi-state lottery game for the benefit of party lotteries. The Lotto*America/Powerball game and the Tri-West Lotto game are presently the only games operated jointly by the members. Each lottery participating in MUSL is represented on the Board of Directors.

Prize Reserve Fund Receivable/Payable

As a member of the MUSL, the Lottery is required to contribute to various prize reserve funds maintained by MUSL. The contributions are to be used to fund unanticipated prize claims. All funds remitted and the related interest earnings will be returned to the Lottery upon leaving the association, less any portion of unanticipated prize claims, which may have been paid from the fund.

The Lottery contributes to the reserve fund through the set-aside for prizes. Payments made to the reserve fund are considered a portion of the prize expense associated with the on-line game.

During 1990, the MUSL Board created the unreserved accounts to record interest earned on the various prize reserve funds when the prize reserve fund balance is not below the predetermined ceiling amount. The amounts in the unreserved accounts may be used at the Board's discretion.

The long-term receivable balance of $1,721,065 and $1,461,589 at June 30, 1996 and 1995, respectively, represents the Lottery's share of the MUSL prize reserve fund that had a balance of $71,230,398 and $53,509,676 for 1996 and 1995, respectively. The long-term liability balance of $1,652,728 and $1,399,705 at June 30, 1996 and 1995, respectively, represents the Lottery's share of the total estimated prize liability.

Lotto*America Prizes and Investments

Prizes awarded to Lotto*America grand prize winners are paid in twenty annual installments funded by investments in United States Treasury zero coupon bonds. Bonds purchased on behalf of Montana source winners are held in trust by MUSL with the Montana State Lottery as beneficiary. As the bonds mature, the proceeds are forwarded to the Montana State Lottery and distributed to the grand prize winners on the anniversary date of each win.

At June 30, 1996 and 1995, MUSL held United States Government zero coupon bonds in trust for the Montana State Lottery winners with respective par values of $75,414,077 and $48,671,305 and respective market values of $46,045,929 and $30,830,604.

The Montana State Lottery has seven Lotto*America/Powerball/Tri-West winners. The combined total of future prize payments owed is $75,413,000 and $48,671,000 at June 30, 1996 and 1995, respectively. Total annual payments due over each of the next five years is $4,658,000 annually and $52,123,000 thereafter. The present value of future prize payments approximate the current market value of the bonds held in trust for the Montana State Lottery winners.

Multi-State Lottery Association Financial Position

Information related to the Multi-State Lottery Association's audited financial statements is as follows:

	June 30, 1996	1995
Total assets	$ 1,243,916,193	$ 910,766,450
Total liabilities	1,243,700,474	910,585,456
Total net assets	215,719	180,994
Total liabilities and net assets, unrestricted	$ 1,243,916,193	$ 910,766,450
Total revenues	$ 2,261,391	$ 1,917,361
Total expenses	2,226,666	1,894,768
Increase in unrestricted net assets	$ 34,725	$ 22,593

NOTE 5—ESTIMATED PRIZE LIABILITY

The estimated prize liability represents the Lottery's estimate of prizes payable related to games in process at year-end based on the predetermined prize structure of each outstanding game.

NOTE 6—OBLIGATION TO TRANSFER FUNDS

Beginning July 1, 1992, the Lottery was required to transfer, each quarter, 9.1 percent of income before transfers to the Montana Board of Crime Control. The balance of income before transfers was transferred to the Montana Office of Public Instruction. Effective July 1, 1995, the Montana State Lottery is required to transfer its net revenue to the Montana State General Fund. This change was enacted through the passage of SB 83 by the 1995 Legislature and signed into law by Governor Racicot in April 1995. The following is a summary of total transfer obligations outstanding:

	June 30, 1996	1995
Transfer obligation—Montana Board of Crime Control	$ –	$ 216,238
Transfer obligation—Montana Office of Public Instruction	–	2,160,005
Transfer obligation—Montana State General Fund	1,645,131	–
Total transfer obligations	$ 1,645,131	$ 2,376,243

NOTE 7—OTHER CURRENT LIABILITIES

Other current liabilities consist of the following:

	June 30, 1996	1995
Estimated return ticket liability	$ 58,321	$ 86,884
Due other state agencies	133,468	93,414
Deferred on-line revenue	81,940	144,367
	$ 273,729	$ 324,665

SCORECARD STATS

NOTE 8—LONG-TERM LIABILITIES

Long-term liabilities consist of the following:

	June 30, 1996	June 30, 1995
Prize liability Multi-State Lottery Association	$ 1,652,728	$ 1,399,705
Accrued compensated absences	167,568	165,188
	$ 1,820,296	$ 1,564,893

NOTE 9—LEASES

The Lottery leases its office, administrative and warehouse facilities under a lease agreement expiring February 1997. Rent expense under operating leases charged to operations was $78,000 for the years ended June 30, 1996 and 1995.

NOTE 10—CONTRIBUTED CAPITAL

The following changes occurred in contributed capital:

	June 30, 1996	June 30, 1995
Beginning balance, contributed capital	$ 239,043	$ 1,360
Donated fixed assets	–	237,683
Ending balance, contributed capital	$ 239,043	$ 239,043

NOTE 11—EMPLOYEE BENEFIT PLANS

Pension Plan

The Lottery participates in the Public Employees Retirement System (PERS). PERS is a statewide mandatory cost-sharing multiple employer defined benefit retirement plan which covers all employees. The plan is established under State law and is administered by the State of Montana. The plan provides retirement, disability, and death benefits to plan members and beneficiaries.

The plan issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained from the following address: Public Employees Retirement System, Public Employees Retirement Division, P.O. Box 200131, 1712 Ninth Avenue, Helena, MT 59620-0131, (406) 444-3154.

Contribution rates for the plan are required and determined by State law. Contribution rates for the Lottery and its employees were increased from 6.55% to 6.70% effective July 1, 1993. The contribution rate for 1996, expressed as a percentage of covered payroll, for both the employer and employee was 6.7%.

The amounts contributed to the plan during the years ended June 30, 1996, 1995 and 1994, were $117,222, $109,114 and $117,963, respectively, and were equal to the required contributions for each year.

Deferred Compensation Plan

The Lottery's permanent employees are eligible to participate in the State of Montana's deferred compensation plan. The State of Montana administers the plan by contractual arrangement with Nationwide Insurance. The amount of compensation deferred is not available to employees until termination, retirement, death, or unforeseen emergency. All amounts deferred under the plan created under Internal Revenue Code Section 457 remain the property of the State of Montana until paid, subject only to claims of the State of Montana's general creditors. Participants' rights under the plan are equal to those of general creditors of the State of Montana in an amount equal to the fair market value of the deferred account for each participant.

NOTE 12—RELATED PARTY TRANSACTIONS

During the ordinary course of business, other State agencies provide certain services and supplies to the Lottery. During 1996 and 1995, total payments to other State agencies were approximately $1,585,233 and $1,383,177, respectively.

NOTE 13—COMMITMENTS AND CONTINGENCIES

Instant Tickets

The Lottery has signed agreements to purchase instant game tickets from Dittler Brothers, Inc., through June 1997. The Lottery has the option to extend the agreement for an additional four, one-year periods.

Maintenance Contract

The Lottery has signed an agreement for computer hardware and software maintenance with Stratus Computer, Inc., for $3,528 per month. The agreement may be canceled by either party with proper notification.

On-line Vendor

The Lottery has signed a contract with Automated Wagering International, Inc., a wholly owned corporation of Video Lottery Technologies, Inc., to provide on-line terminals, central computers and a telecommunications network through November 1998. The contract provides for payments to be based on a percentage of weekly sales.

Prize Contingencies

Certain Big Spin prizes awarded are payable to the winners in annual installments spanning seventeen to twenty years with the first payment being made by the Lottery. The Lottery has entered into agreements with an insurance carrier under which purchased annuities will provide the required level of payments corresponding to the Lottery's obligation to these prize winners. Because it is the intent of the Lottery that the insurance carrier will make future installment payments directly to each prize winner, neither the present value of the annuities nor the present value of the future payments are reflected in the accompanying financial statements. The Lottery would be liable for such future payments in the gross amount of $2,734,559 and $2,984,559 at June 30, 1996 and 1995, respectively, if the insurance carrier defaulted on their payments.

Advertising

The Lottery signed a contract with Wendt Advertising to provide advertising services for $12,750 per month through September 1996.

NOTE 14—PRIOR PERIOD ADJUSTMENT

The prior period adjustment of $47,460 reflects a correction to the MUSL prize reserve accounts related to fiscal year ended June 30, 1992.

Alternative accessible formats of this document will be provided upon request. Please make your request by calling (406) 444-5825.

600 copies of this document were published at an estimated cost of $1.38 per copy, for a total of $830.

Montana Lottery
2525 North Montana ◆ Helena, MT 59601
Phone 406-444-5825

Editor ◆ Jo Berg Graphics ◆ Laurie Felch